


AR09

Torstar
Corporation

1978
Annual Report





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Torstar Corporation Annual Report 1978

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Transfer Agent and Registrar
National Trust Company, Limited

Listed
Classes B & C Shares
Toronto and Montreal Stock Exchanges

Head Office
One Yonge Street
Toronto, Ontario
M5E 1P9
(416) 367-4595

Summary of Financial Information

	1978	1977
Consolidated operating revenue	\$277,471,000	\$220,851,000
Net income		
— before extraordinary item	\$ 13,759,000	\$ 12,079,000
— after extraordinary item	\$ 13,759,000	\$ 12,341,000
Average shares outstanding	8,143,908	8,086,650
Earnings per share		
— before extraordinary item	\$1.69	\$1.49
— after extraordinary item	\$1.69	\$1.53
Dividends paid	\$ 3,095,000	\$ 2,588,000
Dividends per share	38¢	32¢

Cover and Right: Toronto, one of the world's most dynamic and livable cities, provides a stimulating centre of operations for Torstar Corporation. Both the parent company and The Toronto Star are located on the lakefront at One Yonge Street adjacent to the financial and shopping core of the city. In the fish-eye view at right, the CN Tower is at upper left, the office towers of five of Canada's major banks are clustered at top centre and The Toronto Star, whose promotion theme is "Toronto means a lot to The Star", is in the foreground.



A color portrait photograph of a middle-aged man with short, dark hair, smiling broadly. He is wearing dark-rimmed glasses, a dark suit jacket, a white shirt, and a striped tie. The background is a solid blue color.

In fiscal 1978 Torstar Corporation achieved improved consolidated revenues and earnings while absorbing the impact of substantial costs to introduce new publications and production systems. This investment spending will continue in 1979 as Torstar builds its base for continued progress in future years.

Consolidated operating revenue increased to a record \$277 million, a 25.6% improvement over the previous year. Net income amounted to \$13,759,000. Earnings per share before extraordinary item were \$1.69, some 13.4% higher than in 1977. Prior years' earnings have been restated upward to reflect an income tax recovery realized in 1978 but related to the period 1973-1977.

In October 1977 The Toronto Star expanded to a seven-day publication schedule with the introduction of The Sunday Star and its companion color magazine, The City. Our community newspaper division also launched a new publication, The Consumer, to expand market penetration in selected suburban communities.

The Canadian Magazine, distributed in The Star as a weekend supplement as well as in ten other newspapers nationally, encountered a severe slowdown in advertising volume as well as startup costs for its expanded Toronto section. This increased The Star's costs for the supplement significantly.



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A major cost reduction program was undertaken in The Toronto Star resulting in a leaner and more competitive cost structure. This began to produce favorable results in the latter half of the year.

For the full year, after reflecting the startup costs for new and improved publications, operating profit from newspaper operations was approximately 16% below the results for the previous year.

The new Star

The renewed vitality of our newspaper operations is evidenced by the new features and redesigned appearance of the Monday-to-Friday and Saturday editions.

The changes include new headline type, a new design approach to better display stories and illustration, and the presentation of most editorial material on six columns rather than nine for easier reading. The content has been enlivened and the range of information and opinion presented in The Star has been broadened through the introduction of new columnists,

Data on The Toronto Star newspaper

Advertising lineage (000's of lines)	1972	1973	1974	1975	1976	1977	1978
Display	31,561	33,194	33,571	34,173	36,572	34,058	34,012
Classified	18,033	18,692	21,979	21,643	20,598	18,992	19,570
Total	49,594	51,886	55,550	55,816	57,170	53,050	53,582
Circulation (note 3)							
Monday to Friday	507,249(1)	509,679	502,802	484,426	488,942	492,254	486,286(2)
Saturday	701,959(1)	746,376	739,899	749,847	768,532	780,677	775,590(2)
Sunday	—	—	—	—	—	—	275,760(2)

- (1) The 11-month period (November 1971 to September 1972) was used for 1972 because of a substantial increase in circulation beginning on November 1, 1971.
- (2) As filed with the Audit Bureau of Circulations, subject to audit.
- (3) Monday to Friday and Saturday circulation are based on a 12-month average whereas Sunday circulation is based on a 9-month average.

Seven-day publication of The Toronto Star is well established, following introduction of The Sunday Star in October of 1977. The weekday and Saturday editions have been redesigned

and new columnists and features have been added to appeal to special age and interest segments of The Star's large and involved readership.



contemporary features and new sections. A tabloid section, *StreefTalk*, has been added to the Thursday paper to meet the interests of young, active readers. A special sports section, *SportsPlus* appears on Fridays.

Seven-day Publishing

The conversion to seven-day publishing, with afternoon delivery to home subscribers continuing Monday to Friday and morning delivery introduced on Saturday and Sunday, was accomplished with no significant circulation loss on the established publication days.

The Saturday edition continues to be the biggest newspaper of the week with an average circulation in 1978 of 775,590 copies, compared with a 780,677 copies average in 1977. This partially reflects a mid-year price increase in the main metropolitan circulation area to 40 cents a copy.

Monday-to-Friday circulation averaged 486,286 copies for the year, about 6,000 copies less than the average for the previous year.

As part of our investment spending to establish *The Sunday Star*, the editors have made extensive use of Spectacolor photos on the front page each week. The outlook for gains in Sunday circulation in fiscal 1979 is good as average circulation in October exceeded 300,000 copies, after only one year of publication.

Management plans to encourage a budgeted upturn in advertising linage with major advertising and circulation campaigns and further improvements in the content of the newspaper, at an expected pre-tax cost in 1979 of \$1.5 million. The introduction of electronic editing in the newsroom and of a computerized system for classified ad-taking will add a pre-tax cost of close to \$1 million against newspaper operations in 1979.

The *Star* will be negotiating new collective agreements with all of its employee unions during fiscal 1979.

Newspaper earnings are expected to stabilize in 1979 even with the level of continued investment for the future. A major recovery cannot be foreseen without a dramatic improvement in general economic conditions.

Metrospan Community Newspapers

Metrospan serves major suburban Toronto communities with nine local newspapers plus a new publication, *The Consumer*, which has been successfully developed over the past year to further expand market penetration in key growth areas. Metrospan's total distribution, including *The Consumer*, now exceeds 440,000 weekly.

Reader and advertiser response to Metrospan's aggressive marketing efforts enabled the division to improve its performance in 1978. Further improvement is projected for 1979 after allowance for the additional costs of increased distribution of the *Mississauga* and *Aurora/Newmarket* newspapers. As part of this circulation development program, the award-winning *Mississauga Times* was changed to a tabloid format in September.



Harlequin Enterprises Limited

Sales of Harlequin books were up world-wide during fiscal 1978, and the company achieved growth of over 60% in revenue and operating profit.

Harlequin continued to diversify both within its traditional book publishing business and in new areas. During the year, the company test marketed in North America its new *Mystique* line, translations of a library of well-known books originally published in France. And in April, a new operation was launched in Paris to publish four titles a month in the French language of the *Collection Harlequin* series.

Harlequin also moved into the magazine business during the year with the acquisition of approximately 78% of *The Laufer Company*. Laufer is a Los Angeles-based publisher of a contemporary series of teen and fan magazines, including *Tiger Beat*, *Right On* and *Rona Barrett's Hollywood*. Harlequin has agreed to acquire the remaining shares from Laufer's senior officers over a five-year period.

Comac Communications Limited

As publishers of four controlled circulation magazines, Comac occupies a major position in Canada's healthy and expanding consumer magazine industry. Comac magazines — *Homemaker's Magazine*, *Madame Au Foyer*, *Quest* and newly-launched *City Woman* — now attract one in every seven dollars spent in Canada's 24 major national magazines. Since 1974, when Torstar acquired a majority interest in Comac Communications Limited, annual advertising revenue for Comac magazines has grown from \$3.9 million to over \$11 million.

Comac's revenues in fiscal 1978 represented a 16% increase over 1977 while net earnings were down somewhat as a result of approximately \$500,000 in pre-tax startup costs to

World-wide readership of Harlequin books continues to grow, paced by the loyalty of women of all ages and interests who can buy a wide variety of titles off the shelf.

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successfully launch the first issue of City Woman in September. This sophisticated, high quality woman's magazine will be published five times in fiscal 1979 and is delivered by mail to 200,000 upper income households in Toronto, Montreal and Vancouver.

With controlled circulation magazines continuing to be the fastest-growing segment of the magazine industry, Comac is well positioned for continued growth.

Printing

The company's two commercial printing operations, The Toronto Star rotogravure plant and the Newsweb offset plant, both realized healthy sales increases in 1978 from outside commercial work and from in-house

printing for other Torstar companies. The contribution of both plants to consolidated earnings was also ahead of the previous year.

The decision was made at mid-year to expand the offset operation with an \$8 million capital program involving a new Goss Metro offset press, ancillary equipment and extension of the Newsweb plant. The new facility will come on stream in fiscal 1980. It will be used to print newspaper special sections, advertiser inserts and community newspapers. The highly automated five-unit press will provide superior color printing. It will use two 4-color common impression cylinder printing units, an advanced technique available at this time at only one other newspaper plant in North America.

Data Base Publishing

The Corporation's data base publishing activities, conducted jointly with Southam Press Limited, continued to grow. INFOMART markets Systems Development Corporation's Search Service and the New York Times' Information Bank. During the year sales for these two electronic information retrieval services almost doubled.

In August, Torstar announced that it would join Southam and Bell Canada in launching a pilot Videotex service in Canada in 1979. Videotex is the generic name used for information retrieval services using a conventional television screen display and telephone lines to access information stored on a central computer.



Extensive market research has enabled Torstar companies to target the special interests of readers and serve them with specifically-designed and edited publications like the tabloid StreetTalk which appears in The Toronto Star every Thursday.

As publishers of Homemaker's, Madame Au Foyer, Quest and City Woman, Comac Communications Limited is at the heart of Canada's rapidly-growing magazine industry.

Film Production

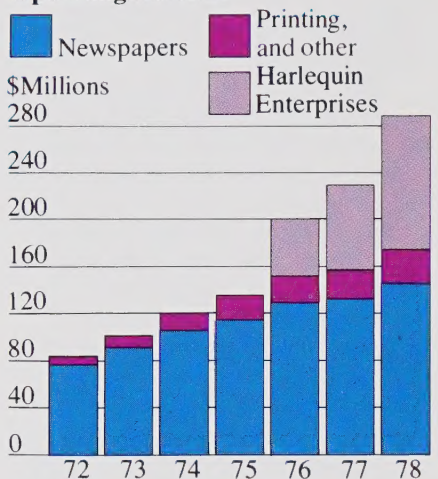
1978 saw Nielsen-Ferns move into a leadership position as Canada's largest independent producer of television programming.

The company added greatly to its creative stature during the past year, winning eight major awards, including best film, at the Canadian Film and Television Awards. In addition, Nielsen-Ferns' productions won three prizes, including top awards for both best documentary series and best drama series, at the International Film and Television Festival in New York.

Of even greater import in the industry was nomination of an episode of *The Newcomers* documentary-drama series, produced for Imperial Oil Limited, for the international Emmy Award as top television drama of the year. Nielsen-Ferns was the only independent producer nominated in the competition.

Nielsen-Ferns incurred certain unrecovered costs associated with production of part of the *New Avengers* television series. Although the company has retained rights that may yield future income from this series,

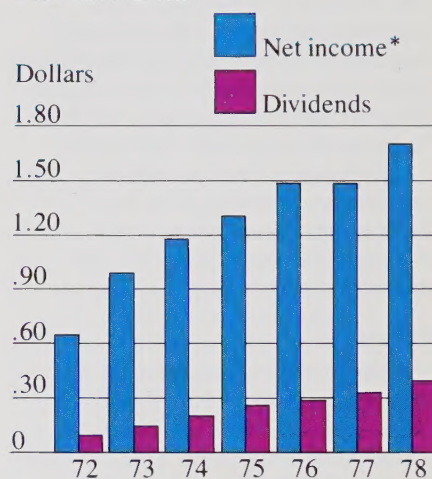
Operating Revenue*



*includes intercompany printing revenue

such income, if any, cannot be estimated with a reasonable degree of certainty. Accordingly, a pre-tax provision of approximately \$1.7 million has been applied to reduce Nielsen-Ferns' 1978 operating profits.

Per Share Data



*excluding extraordinary items

Outlook

Torstar anticipates considerably improved earnings in 1979 as Harlequin continues to grow and other segments of our business achieve higher sales and improved efficiency.

We enter 1979 with a career newspaper executive, Martin Goodman, appointed to the position of President and Chief Operating Officer of The Toronto Star, succeeding William A. Dimma who left the company in November for another position. Dr. Dimma joined our board in 1974 and served as director, consultant and president during a period of substantial change and growth.

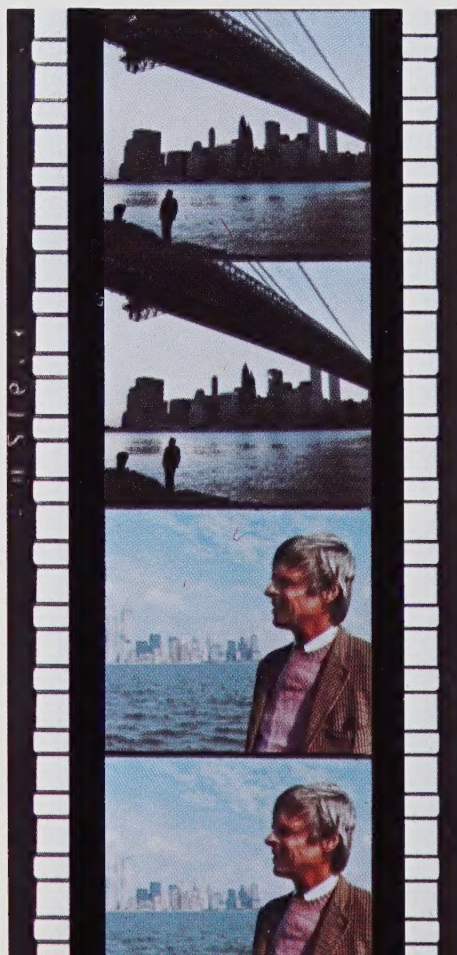
Within the parent company, the position of president of Torstar has been combined with my own role as Chairman and Chief Executive. In addition, we have elected our senior financial officer, J. Murray Cockburn, to the Torstar Board of Directors and appointed E. Paul Zimmerman, for the past 18 years President of Reader's Digest in Canada, as Vice-President of Corporate Development.

The past two years have been ones of substantial transition and the Directors are most appreciative of the excellent effort made by senior management and all employees to ensure continued progress and success for our operating companies.

Beland Honderich

Beland H. Honderich,
Chairman and President

Nielsen-Ferns added greatly to its creative stature during the past year, winning more than a dozen major awards for its "Cities" and "Newcomers" series.



Torstar Seven-year Operating Highlights

Operating revenue (thousands of dollars)	1972	1973	1974	1975	1976	1977	1978
Newspapers	\$77,911	\$91,257	\$104,388	\$116,267	\$130,195	\$133,727	\$144,135
Harlequin Enterprises Limited	—	—	—	—	47,811	70,647	114,610
Printing and other	4,420	8,263	16,158	19,090	22,468	24,506	28,681
	82,331	99,520	120,546	135,357	200,474	228,880	287,426
Less intercompany printing revenue	2,907	4,739	5,790	6,051	7,473	8,029	9,955
Consolidated operating revenue	\$79,424	\$94,781	\$114,756	\$129,306	\$193,001	\$220,851	\$277,471

Operating profit and net income (thousands of dollars)

Newspapers	\$10,224	\$13,927	\$16,873	\$16,969	\$18,208	\$11,351	\$ 9,555
Harlequin Enterprises Limited	—	—	—	—	8,573	19,203	30,946
Printing and other	342	438	408	945	1,654	1,954	729
Consolidated operating profit	10,566	14,365	17,281	17,914	28,435	32,508	41,230
Add (deduct):							
Net investment income (expense)	(1,265)	(367)	(546)	248	(599)	108	877
Amortization of goodwill	—	—	—	—	(826)	(702)	(868)
Exchange adjustment	—	—	—	—	(438)	158	600
Income before taxes	9,301	13,998	16,735	18,162	26,572	32,072	41,839
Income taxes*	4,655	6,698	7,966	8,403	12,459	15,224	20,549
Income before minority interest	4,646	7,300	8,769	9,759	14,113	16,848	21,290
Minority interest in earnings of subsidiaries	—	—	—	—	2,109	4,769	7,531
Income before extraordinary items*	\$ 4,646	\$ 7,300	\$ 8,769	\$ 9,759	\$ 12,004	\$ 12,079	\$ 13,759

Per share data (adjusted for stock splits)

Income before extraordinary items*	64¢	99¢	\$1.18	\$1.31	\$1.49	\$1.49	\$1.69
Dividends	10¢	15¢	20¢	26¢	29¢	32¢	38¢
Shareholders' equity*	\$3.98	\$4.82	\$5.22	\$6.30	\$8.17	\$9.39	\$10.72

Rate of return on revenue

Consolidated operating profit	13.3%	15.2%	15.1%	13.9%	14.7%	14.7%	14.9%
Income before minority interest and extraordinary items*	5.8%	7.7%	7.6%	7.5%	7.3%	7.6%	7.7%

*adjusted for 1978 recovery of taxes related to 1973-1977

Consolidated Balance Sheet (thousands of dollars)

September 30, 1978 (with comparative figures at September 30, 1977 — note 9)

Assets	1978	1977
Current:		
Cash	\$ 783	\$ 1,483
Short term investments, at cost, which approximates market	18,720	19,061
Receivables (note 2)	36,258	26,043
Inventories	15,124	13,280
Prepaid income taxes and other expenses	13,017	7,928
Total current assets	83,902	67,795
Investments and other non-current assets (note 3)	30,993	31,385
Fixed assets, at cost:		
Land	3,311	3,311
Buildings and leasehold interests	6,422	5,884
Presses and associated equipment	17,272	16,894
Non-press equipment and vehicles	21,501	19,605
	48,506	45,694
Less accumulated depreciation	21,096	18,644
Total fixed assets	27,410	27,050
Subscription list at amortized cost	7,667	8,000
Goodwill at amortized cost	36,591	26,111
Total assets	\$186,563	\$160,341

On behalf of the Board

Belond Houdouin

Director

Bernie M. Hall

Director

Torstar Corporation (incorporated under the laws of Ontario)

Liabilities and Shareholders' Equity	1978	1977
Current:		
Bank indebtedness	\$ 9,719	\$ 6,053
Accounts payable and accrued liabilities	28,319	20,652
Taxes payable	11,025	14,514
Dividend payable	1,059	749
Current portion of non-current debt	2,639	3,558
Total current liabilities	52,761	45,526
Non-current debt (note 4)	23,196	21,445
Deferred income taxes	5,353	5,525
Minority interest in subsidiaries	17,934	11,174
Employees' shares subscribed		724
Shareholders' equity:		
Share capital (note 5)		
Issued and outstanding:		
1978 — 8,143,908 shares (1977 — 8,087,353)	13,160	12,452
Retained earnings	74,159	63,495
Total shareholders' equity	87,319	75,947
Total liabilities and shareholders' equity	\$186,563	\$160,341

(See accompanying notes)

Auditors' Report

To the Shareholders of
Torstar Corporation:

We have examined the consolidated balance sheet of Torstar Corporation as at September 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the

circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants
November 13, 1978
Toronto, Canada

Torstar Corporation Consolidated Statement of Income (thousands of dollars)

Year ended September 30, 1978 (with comparative figures for 1977 — note 9)

	1978	1977
Revenue:		
Newspapers	\$144,135	\$133,727
Harlequin Enterprises Limited	114,610	70,647
Printing and other	28,681	24,506
	287,426	228,880
Less intercompany printing revenue	9,955	8,029
Consolidated operating revenue	277,471	220,851
Consolidated operating costs (note 6)	236,241	188,343
Consolidated operating profit	41,230	32,508
Add (deduct):		
Investment revenue	4,098	2,843
Interest expense—non current debt	(2,423)	(2,408)
—other	(798)	(327)
Net investment income	877	108
Amortization of goodwill (note 1)	(868)	(702)
Exchange adjustment	600	158
	609	(436)
Income before taxes	41,839	32,072
Income taxes	20,549	15,224
Income before minority interest and extraordinary item	21,290	16,848
Minority interest in earnings of subsidiaries	7,531	4,769
Income before extraordinary item	13,759	12,079
Extraordinary item—income tax reductions arising from recovery of prior years' losses of subsidiaries		262
Net income for the year	\$ 13,759	\$ 12,341
Earnings per share:		
— before extraordinary item	\$1.69	\$1.49
— after extraordinary item	\$1.69	\$1.53

(See accompanying notes)

Torstar Corporation Consolidated Statement of Retained Earnings (thousands of dollars)

Year ended September 30, 1978 (with comparative figures for 1977 – note 9)

	1978	1977
Retained earnings, beginning of year		
As previously reported	\$62,110	\$52,517
Adjustments of prior years' income taxes (note 9)	1,385	1,225
As restated	63,495	53,742
Add net income for the year	13,759	12,341
	77,254	66,083
Less dividends	3,095	2,588
Retained earnings, end of year	\$74,159	\$63,495

(See accompanying notes)

Torstar Corporation Consolidated Statement of Changes in Financial Position (thousands of dollars)

Year ended September 30, 1978 (with comparative figures for 1977 – note 9)

	1978	1977
Source of funds:		
From operations—		
Income before extraordinary item	\$13,759	\$12,079
Add charges to income which did not reduce working capital:		
Minority interest	7,531	4,769
Depreciation	3,695	3,572
Amortization of goodwill and subscription lists	1,201	1,035
Deferred income taxes	(172)	(26)
Total funds from operations	26,014	21,429
Increase in debt	1,751	1,221
Extraordinary income tax reductions		262
Other	556	(4)
Total source of funds	\$28,321	\$22,908

Application of funds:

Acquisition of subsidiary companies net of working capital acquired (note 7)	7,357	4,424
Less portion of purchase price represented by a non-current liability		(950)
	7,357	3,474
Investment in shares of Western Broadcasting Company Ltd.		9,005
Additional investment in shares of Harlequin Enterprises Limited (note 8)	4,356	
Debt reduction		3,549
Fixed assets	3,953	3,708
Dividends to shareholders	3,095	2,588
Dividends paid by subsidiary to minority interest	688	648
Increase (decrease) in working capital	8,872	(64)
Total application of funds	\$28,321	\$22,908

(See accompanying notes)

Torstar Corporation Notes to Consolidated Financial Statements

September 30, 1978

1. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Principles of consolidation –

The consolidated financial statements include the accounts of all subsidiary companies.

(b) Foreign exchange –

Accounts denominated in foreign currencies have been translated to Canadian dollars as follows: current assets and liabilities (other than those covered by foreign exchange contracts) at exchange rates prevailing at September 30; fixed assets, goodwill and other assets, depreciation and long-term liabilities at exchange rates prevailing at dates acquired, or assumed; income and expenses (excluding depreciation) at average rates during the year. Exchange adjustments resulting from such translation practices are recognized in the consolidated statement of income.

(c) Inventories –

Inventories are valued at the lower of cost and net realizable value.

(d) Depreciation policy –

The cost of plant and equipment is depreciated using various rates and methods depending on the estimated useful lives of the assets. The rates and methods used for major depreciable assets are as follows:

- (i) Presses and associated equipment – straight line over 15 years.
- (ii) Non-press equipment – straight line over 12½ years or 20% diminishing balance.

(e) Subscription list –

The subscription list is amortized on a straight line basis over a 30-year period to 2001.

(f) Goodwill –

Goodwill carried on the consolidated balance sheet is being amortized on a straight line basis using an amortization period of 40 years.

(g) Past service pension costs –

The costs relating to improved pension benefits granted for employment in prior periods, to the extent they are not covered by pension plan surplus, are amortized over periods not exceeding 15 years from the dates at which such benefits become effective.

(h) Income taxes –

The company follows the deferral method of income tax allocation which results in prepaid and deferred income taxes. Prepaid income taxes result from costs, principally provision for book returns, which are not currently deductible for tax purposes. Deferred income taxes result from claiming deductions for income tax purposes, principally depreciation, in excess of amounts currently charged.

2. Receivables

The provision for anticipated book returns deducted from receivables at September 30, 1978 amounted to \$9,197,000 (1977 – \$7,908,000).

3. Investments and other non-current assets

As at September 30, investments consisted of (in thousands of dollars):

	1978	1977
9.25% first mortgage sinking fund bonds due December 31, 2000 (a)	\$10,835	\$10,988
8.54% second mortgage receivable maturing July 25, 2001 (a)	4,345	4,409
Shares of Western Broadcasting Company Ltd., at cost (b)	13,427	13,427
Other non-current assets	2,386	2,561
	\$30,993	\$31,385

(a) The first mortgage sinking fund bonds and the second mortgage are held on The Star building at One Yonge Street. In addition to interest, the first mortgage sinking fund bonds are entitled to share in profits of the building operation.

(b) The investment in Western Broadcasting Company Ltd. is represented by 1,223,520 shares or approximately 33% of Western's outstanding common shares.

4. Non-current debt

As at September 30, non-current debt consisted of (in thousands of dollars):

	1978	1977
Bank loans due 1980-83 with interest at prime + 1%	\$20,000	\$19,000
Other debt due 1980-87	3,196	2,445
	\$23,196	\$21,445

Non-current debt repayment requirements amount to \$6,677,000 in fiscal 1980, \$5,756,000 in 1981, \$5,106,000 in 1982, \$5,106,000 in 1983, \$106,000 in 1984 and \$445,000 in 1985 to 1987.

5. Share capital

(a) Authorized, issued and outstanding shares –

At September 30, 1978, shares authorized, issued and outstanding, all without par value, were as follows:

	Authorized	Issued and outstanding
Common	1,890,560	
Class B } Class C }	10,836,107	6,380,015
Class D } Class E }	3,563,893	1,763,893
	14,400,000	8,143,908

(b) Conversion and voting rights –

The Class B, C, D and E shares are interconvertible except that neither the Class B nor Class C shares (which only acquire voting rights upon failure of the company to pay quarterly dividends on Class B or Class C shares for eight consecutive quarters), are convertible into Class D or Class E shares (which have full voting rights under all circumstances).

(c) Restrictions on transfer –

The registration of a transfer of shares may be refused if such transfer could jeopardize either the ability of the company to engage in broadcasting or its status as a Canadian newspaper.

(d) Dividend entitlements —

After payment to the holders of Class C, D and E shares of dividends equal to the non-cumulative preferential dividend (7.5¢ per share) paid to the holders of Class B shares in any year, all shareholders of the company rank equally respecting the payment of any further dividends. Under present tax legislation dividends on Class C and D shares may be paid in the form of tax-deferred dividends until December 31, 1978.

(e) Employees' share purchase plan —

Under the company's share purchase plan, 56,555 Class B shares were issued during the year for a total consideration of \$708,000. No further subscriptions are presently outstanding.

6. Consolidated operating costs

Operating costs for the year ended September 30 consisted of (in thousands of dollars):

	1978	1977
Newspapers—		
Employee costs	\$54,131	\$50,195
Paper and Ink	32,632	31,475
Other	47,817	40,706
Total newspapers	134,580	122,376
Harlequin Enterprises Limited	83,664	51,444
Printing and other	27,952	22,552
	246,196	196,372
Less intercompany printing purchases	(9,955)	(8,029)
Consolidated operating costs	\$236,241	\$188,343

7. Acquisition of subsidiary

During the year Harlequin Enterprises Limited acquired approximately 78% of The Laufer Company, a U.S. publisher of teen and entertainment magazines. This acquisition was accounted for as follows (in thousands of dollars):

Working capital	\$ 3,142
Fixed assets	102
Net tangible assets, at fair value	3,244
Less minority interest in net tangible assets	722
	2,522
Goodwill	7,977
Total cost	\$10,499

In addition, Harlequin has agreed to purchase the remaining 22% of The Laufer Company. This will involve a purchase of 250,000 shares over the next five years at prices that will vary with the earnings of The Laufer Company, with a minimum commitment of approximately \$1,600,000.

8. Additional acquisition of Harlequin Enterprises Limited

In connection with the acquisition in fiscal 1976 of approximately 52% of the outstanding shares of Harlequin Enterprises Limited, the company entered into agreements with certain senior officers of Harlequin pursuant to which the company obtained the option to buy from such officers, and the officers were granted the option to sell to the company, a further 2,144,349 common shares of Harlequin.

During the year the company exercised its first option to purchase 375,261 common shares at a price of approximately \$9.59 per share for a total purchase of \$3,598,000. In addition, the company acquired 107,400 shares on the open market at a cost of \$758,000. These purchases were accounted for as a reduction of minority interest of \$986,000 and increased goodwill of \$3,370,000. As a result of these purchases the company's interest in Harlequin has been increased to 55.6%.

The agreements provide that the remaining options may be exercised by either party during the periods from March 31 to June 30 in the years 1979 to 1981 as follows:

	Number of shares	Percentage of total shares outstanding
1979	482,478	3.0%
1980	589,696	3.7
1981	696,914	4.4
	1,769,088	11.1%

The exercise of these options can be accelerated upon the occurrence of certain events. If, and to the extent that, the options are exercised, the purchase prices as provided for in these agreements, after giving effect to the 3:1 split in Harlequin shares in 1978, will be the greater of:

(a) \$2.94 per common share, and

(b) 10 times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings are equal to or less than 50¢ per share, or 12½ times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings exceed 50¢ per share.

The earnings referred to above are defined as the earnings reflected in the consolidated income statement of Harlequin Enterprises Limited for the year ended December 31 immediately preceding each option period.

9. Prior period adjustment

As a result of favourable income tax reassessments applicable to the years 1973 to 1977, the company has recovered taxes previously provided in the amount of \$1,385,000. Of this amount \$160,000 represents a reduction of the 1977 tax provision and \$1,225,000 relates to years prior to 1977. Certain 1977 comparative figures, including income taxes, net income for the year, retained earnings and prepaid and deferred income taxes, have been retroactively adjusted to reflect these tax reductions.

10. Pension plans

The unamortized past service costs for pension benefits in effect at September 30, 1978 approximate \$1,700,000. In addition, improvements to The Toronto Star Pension Plan have been negotiated, effective January 1, 1979, which will increase the pension plan's liabilities by an estimated amount of \$4,600,000. This additional cost will be reduced by any surplus in the plan at the time the improved benefits go into effect.

11. Lease obligations

The company is obligated under a lease to the year 2001 for a portion of The Star building at One Yonge Street for an annual rental cost of \$1.7 million plus municipal taxes, maintenance and other operating costs relating to the leased portion.

Torstar Corporation

Notes to Consolidated

Financial Statements

(cont'd)

The company could be liable under certain contingencies to lease the whole building to 2001 with an additional rental commitment of approximately \$1.1 million plus payment of related municipal taxes, maintenance and other operating costs.

Other long-term lease obligations are not considered material.

12. Material commitments

(a) The company's Commercial Printing division has underway a program to install a new offset printing press and to expand its building. The total budget for this program is approximately \$8 million, most of which will be expended in fiscal 1979.

(b) Harlequin Enterprises Limited has entered into U.S. dollar foreign exchange contracts (at an average rate of \$1.14 Canadian) covering the anticipated net cash flow from U.S. operations for the coming year.

13. Other contingencies

(a) In 1975, the company commenced, and is proceeding with, an action for damages incurred for the failure of six printing presses provided by Crabtree-Vickers (Canada) to perform in accordance with the specifications pursuant to which they were sold.

(b) A number of legal actions against the company and its subsidiaries are outstanding, the ultimate disposition of which is not expected to materially affect the consolidated financial position of the company.

14. Statutory information

The aggregate remuneration charged to consolidated income in 1978 in respect of directors and senior officers of Torstar Corporation (as defined by The Ontario Business Corporations Act) was \$1,281,000.

Supplementary Information

The consolidating schedules set out opposite this page provide condensed balance sheet, earnings and flow of funds information for Torstar Corporation and its closely controlled subsidiaries and, separately, for Harlequin Enterprises Limited.

This information is meant to supplement that supplied by the consolidated financial statements. The additional and separate disclosure is provided because of the significance of the Harlequin assets, liabilities and operations in the overall consolidated picture, and the substantial minority holdings of Harlequin shares.

Torstar Corporation Supplementary Consolidating Information

(thousands of dollars) September 30, 1978 (with comparative figures at September 30, 1977)

	Torstar Corporation (note)		Harlequin Enterprises Limited		Consolidating Adjustments		Total Consolidated	
	1978	1977	1978	1977	1978	1977	1978	1977
BALANCE SHEET								
Assets								
Current assets	\$ 30,201	\$ 29,637	\$ 53,701	\$ 38,158	\$	\$	\$ 83,902	\$ 67,795
Investments and other non-current assets	30,766	30,620	227	765			30,993	31,385
Investment in Harlequin Enterprises Limited	46,911	35,547			(46,911)	(35,547)		
Fixed assets (net)	25,213	25,497	2,197	1,553			27,410	27,050
Subscription list and goodwill	7,667	8,000	14,193	6,385	22,398	19,726	44,258	34,111
Total assets	\$140,758	\$129,301	\$ 70,318	\$ 46,861	\$ (24,513)	\$ (15,821)	\$186,563	\$160,341
Liabilities and Shareholders' Equity								
Current liabilities	\$ 27,615	\$ 27,580	\$ 25,146	\$ 17,946	\$	\$	\$ 52,761	\$ 45,526
Non-current debt	20,271	19,275	2,925	2,170			23,196	21,445
Deferred income taxes	5,353	5,525					5,353	5,525
Minority interest in subsidiaries	200	250	983		16,751	10,924	17,934	11,174
Employees' shares subscribed		724						724
Shareholders' equity	87,319	75,947	41,264	26,745	(41,264)	(26,745)	87,319	75,947
Total liabilities and shareholders' equity	\$140,758	\$129,301	\$ 70,318	\$ 46,861	\$ (24,513)	\$ (15,821)	\$186,563	\$160,341
INCOME BEFORE MINORITY INTEREST								
Operating revenue	\$162,861	\$150,204	\$114,610	\$ 70,647	\$	\$	\$277,471	\$220,851
Operating costs	152,577	136,899	83,664	51,444			236,241	188,343
Operating profit	10,284	13,305	30,946	19,203			41,230	32,508
Income before taxes	10,020	12,873	32,518	19,816	(699)	(617)	41,839	32,072
Income taxes	4,055	5,470	16,494	9,754			20,549	15,224
Income before minority interest	\$ 5,965	\$ 7,403	\$ 16,024	\$ 10,062	\$ (699)	\$ (617)	\$ 21,290	\$ 16,848
CHANGES IN FINANCIAL POSITION								
Source of funds:								
Funds from operations	\$ 10,127	\$ 11,786	\$ 16,671	\$ 10,364	\$ (784)	\$ (721)	\$ 26,014	\$ 21,429
Other sources of funds	1,323	222	984	1,257			2,307	1,479
Total source of funds	11,450	12,008	17,655	11,621	(784)	(721)	28,321	22,908
Application of funds:								
Acquisition of subsidiary companies		1,363	7,357	2,111			7,357	3,474
Investment in Western Broadcasting Company Ltd.		9,005						9,005
Additional investment in shares of Harlequin Enterprises Limited	4,356						4,356	
Debt reduction		3,549						3,549
Fixed assets	2,931	3,248	1,022	460			3,953	3,708
Dividends to shareholders	3,095	2,588	1,472	1,369	(784)	(721)	3,783	3,236
Increase (decrease) in working capital	1,068	(7,745)	7,804	7,681			8,872	(64)
Total application of funds	\$ 11,450	\$ 12,008	\$ 17,655	\$ 11,621	\$ (784)	\$ (721)	\$ 28,321	\$ 22,908

Note: Includes Torstar Corporation and all subsidiary companies except Harlequin Enterprises Limited

TORSTAR CORPORATION

Beland H. Honderich,
Chairman and President
Burnett M. Thall,
Vice-President
J. Murray Cockburn,
*Vice-President, Finance
and Administration*
Lionel C. Mohr,
Vice-President, Marketing
E. Paul Zimmerman,
Vice-President, Corporate Development
Cameron L. Fellman,
Director, Corporate Development
Robert E. Giroux,
Director, Finance and Administration
James M. Spence,
General Counsel and Secretary
Neil A. Baird,
Manager, Corporate Development
Harry E. Andrews,
*Secretary to the Board
and Investment Manager*

TORONTO STAR NEWSPAPERS LIMITED

Beland H. Honderich,
Chairman and Publisher
Martin W. Goodman,
President
Burnett M. Thall,
*Vice-President and Director,
Production and Technical Services*

Editorial

Denis M. Harvey,
Editor-in-Chief
David L. Crane,
Editorial Page Editor
Hartley Steward,
Managing Editor
Raymond L. Timson,
Managing Editor, Special Projects
Thomas D. Curzon,
Executive Editor
Steven Petherbridge,
Deputy Managing Editor
John G. Miller,
Sunday Editor
Sheena Paterson,
Saturday Editor

Finance and Administration

Bruce W. Taylor,
Director of Finance and Administration
Wayne Zubek,
Controller

Advertising

Norman R. Kirk,
Director of Advertising
William B. Bond,
Director of Retail Merchandising
William O. Clark,
Assistant Advertising Director
Andrew V. Go,
Assistant Advertising Director

Circulation

James F. Robinson,
Director of Circulation

Operations and Services

John E. A. Brooks,
Director of Communications
Christopher J. Davies,
Director of Industrial Relations
Thomas L. Murtha,
Director of Marketing
Norman C. Spanton,
Production Manager
Albert J. Simpson,
Operations Control Manager

METROSPAN PRINTING & PUBLISHING LTD.

Metrospan Community Newspapers Division

D. Ross McCrimmon,
President
R. Richard Fish,
Vice-President, Marketing
George A. Lyn,
Secretary-Treasurer
Richard W. Desrochers,
Publisher
Mississauga Times
Hubert J. Foley,
Publisher, Oakville Division
Robert C. Maxwell
*Publisher, Etobicoke
Advertiser/Guardian*
John C. Fergus,
Publisher, North Division
John Van Kooten,
*Associate Publisher,
Mirror Division*

Commercial Printing Operations

J. Ray Morris
President
Robert H. Hodgins
Controller
Richard D. More,
Newsweb Division Manager
Richard A. Wilkinson,
Roto Division Manager

Torstar Operating Companies and Management

HARLEQUIN ENTERPRISES LIMITED (55.6%)

Corporate Management

W. Lawrence Heisey,
President
William F. Willson
Vice-President, Finance
Martin A. Reaume,
Controller
Frederick C. Z. Silk,
Treasurer
Anthony P. Lloyd,
Director,
Corporate Development

Divisional Management

Harlequin Books

Richard H. Bellringer,
President
Samuel A. Whitfield,
Vice-President,
Consumer Sales
Louis Krupat,
Vice-President,
Finance & Administration
Jerry Goldman,
Director, Distribution
Fred Kerner,
Director, Publishing
John D. Prestage
Director, Retail Sales
David R. Sanderson
Director, Marketing
Roberta S. Steinberg,
Director, Personnel
Philip G. Whalen,
Director, Finance

Ideals Publishing Corporation

William G. Gaspero,
President

The Laufer Company

Charles Laufer,
President
Ira Laufer,
Senior Vice-President
Roland Hinz,
Executive Vice-President
Ralph Benner,
Vice-President
Kenneth Sprong,
Vice-President, Circulation
F. Hart Borrowman,
Vice-President, Finance

Harlequin Films

Christopher J. F. Harrop,
Director

Harlequin Magazines Inc.

Carlo Vittorini,
President

Mills & Boon, London

John T. Boon, C.B.E.
Chairman
Alan W. Boon,
Group Editorial Director, Fiction
Paul J. Scherer,
Managing Director
Bernard C. J. Rogers,
Financial Director and
Company Secretary
Heather Jeeves,
Editorial Director, Fiction
Arthur T. McKay,
Director, Publishing
Owen E. Bryant,
U.K. Marketing Director
Michael N. Saraceno,
Production Director

Mills & Boon, Australia

Les A. Ward,
Managing Director

Scholar's Choice

R. Alexander de Boer,
President
Bruce T. Wills,
Vice-President, Finance

Harlequin Holland

Klaas Koome,
Managing Director

Cora Verlag, (Germany) (50% owned)

Klaas Koome,
Joint Managing Director
Hans Sommer,
Joint Managing Director

Harlequin France

Christian Chalmin,
Managing Director

COMAC COMMUNICATIONS LIMITED

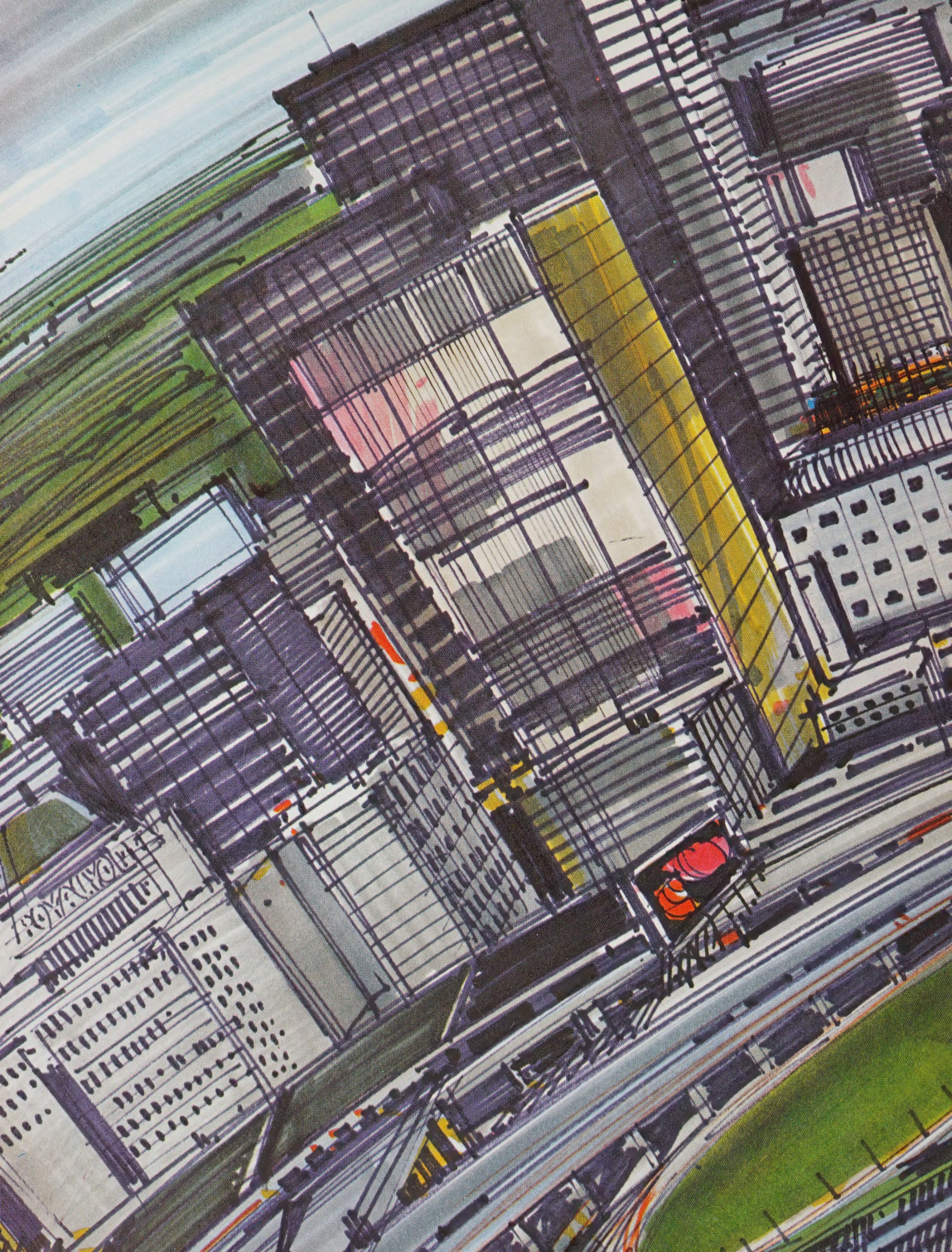
Edward H. Gittings,
President
Jeffrey W. Shearer,
Executive Vice-President
B. Neil Clark,
Vice-President,
Finance and Administration
Hugh J. Rosser,
Vice-President
Timothy H. Goodman,
Publisher, City Woman
Jane Hughes,
Editor, Homemaker's Magazine
Harold White,
National Sales Manager,
Homemaker's Magazine
Nicholas Steed,
Editor, Quest
John A. Dunlop,
National Sales Manager, Quest
Dawn MacDonald,
Editor, City Woman
Patrick C. C. Evans,
National Sales Manager, City Woman

NIELSEN-FERNS INTERNATIONAL LTD.

Richard Nielsen,
President
W. Paterson Ferns,
Vice-President
Michael Peacock,
Supervisor of Production
Lance E. McIntosh,
Controller

ASSOCIATED COMPANIES

Southstar Publishers Limited (50%)
INFOMART (50%)



CONSOLIDATED STATEMENT
OF CHANGES IN FINANCIAL
POSITION (unaudited)
(Thousands of dollars)

Six Months
ended March 31
1978 1977

Source of funds:

From operations —		
Net income.....	\$ 5,601	\$ 4,639
Add charges to income which did not reduce working capital:		
Depreciation and amortization	2,267	2,247
Deferred income taxes		177
Minority interest in earnings of subsidiaries	3,628	1,699
Total funds from operations.	11,496	8,762
Increase in long term debt....		3,473
Total source of funds.....	<u>\$11,496</u>	<u>\$12,235</u>

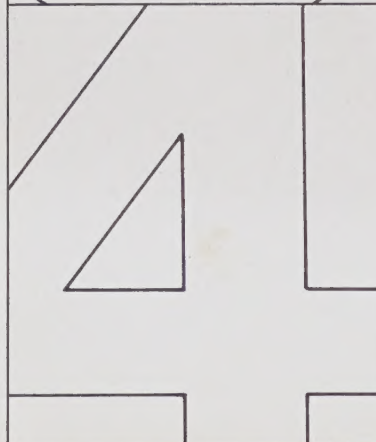
Application of funds:

Investment in subsidiaries and joint venture companies net of working capital acquired..	\$ 757	\$ 3,033
Dividends to shareholders....	1,303	1,294
Increase in working capital...	7,446	3,675
Additions to fixed assets.....	1,541	1,761
Increase in investments.....	116	2,148
Dividends paid by subsidiary to minority interest	333	324
Total application of funds.....	<u>\$11,496</u>	<u>\$12,235</u>

YTORSTAR

YTORSTAR

Interim Report for the
second quarter ended
March 31, 1978



TO THE SHAREHOLDERS:

The consolidated net income of Torstar Corporation for the second quarter of the 1978 fiscal year amounted to \$2,121,000, compared to \$1,901,000 for the same quarter last year.

For the year to date, net income amounts to \$5,601,000 or 69 cents per share, compared to \$4,639,000 or 57 cents per share last year. The gain in net income per share of 21% for the year to date primarily reflects the outstanding performance of Harlequin Enterprises Limited which more than offset the continued depressed earnings in our newspaper operations.

Net income from newspapers has declined about 40% in the six month period despite a 6% increase in revenue. This is attributable to the net cost of publishing The Sunday Star in its first year, and to a lesser extent to a decline in advertising linage. Circulation of The Sunday Star, published for the first time in October, has reached a level of about 275,000 per issue. Weekday and Saturday circulation of The Toronto Star are only slightly lower than the previous year.

Negotiations to renew the collective agreement with the Toronto Star Newspaper Guild which represents the majority of the newspaper's employees, have reached the final mediation stage. Although there is a legal strike or lockout date of May 18, mediation meetings have been scheduled prior to that date.

Harlequin's business continues to gain, with earnings for the six months ended March 31, 1978 up 117% over the same six months last year. This is essentially a result of continued growth in books sold, especially in the United States, price increases introduced in 1977 and more efficient operations. Some moderation in the earnings trend is expected from that enjoyed in the past six months.

Early in April Harlequin completed the purchase of a controlling interest in The Laufer Company, a leading U.S. publisher of teenage and entertainment magazines. Under options from Laufer's management, a further 21% of the outstanding shares will be purchased over the next five years. On

May 2, Harlequin made a public offer for the balance of the shares outstanding. Exclusive of the optioned shares, the price of which is dependent on future earnings, the investment will total in excess of \$9 million U.S.

Torstar's rotogravure and Newsweb offset printing businesses, as well as Comac Communications Limited, contributed to the improved results for the year to date.

Comac has announced the introduction this fall of a new controlled circulation magazine, named "City Woman", to be added to its successful publications — Homemaker's Magazine, Madame Au Foyer and Quest.

Newsweb has committed to purchase an offset printing press and ancillary equipment at a cost of approximately \$7 million. This press will be used to print newspaper special sections and advertiser inserts, community newspapers and other commercial printing requirements.

The quarterly dividend to shareholders has been increased to 9 cents effective with the dividend payable July 14, 1978 to shareholders of record June 30, 1978.

Beland Honderich Wm. A. Dimma

BELAND HONDERICH
Chairman and Chief
Executive Officer

WILLIAM DIMMA
President and Chief
Operating Officer

Toronto, Canada, May 5, 1978.

CONSOLIDATED STATEMENT OF INCOME (unaudited)

(Thousands of dollars)

	Three Months ended March 31		Six Months Ended March 31	
	1978	1977	1978	1977
Revenue:				
Newspapers	\$33,798	\$32,121	\$70,678	\$66,445
Books and learning materials.....	23,858	16,412	48,521	31,272
Printing, magazines and film production	7,375	5,722	14,765	12,357
	<u>65,031</u>	<u>54,255</u>	<u>133,964</u>	<u>110,074</u>
Less inter-company printing revenue	2,397	1,948	4,925	4,157
Consolidated operating revenue	62,634	52,307	129,039	105,917
Consolidated operating costs	55,431	46,726	110,838	92,706
Consolidated operating profit	<u>7,203</u>	<u>5,581</u>	<u>18,201</u>	<u>13,211</u>
Investment revenue	991	761	1,940	1,273
Less interest expense	666	697	1,273	1,443
Net investment income (expense)	325	64	667	(170)
Amortization of goodwill	(175)	(222)	(351)	(472)
Exchange adjustment	14	72	355	155
	<u>164</u>	<u>(86)</u>	<u>671</u>	<u>(487)</u>
Income before taxes	7,367	5,495	18,872	12,724
Income taxes	3,692	2,862	9,643	6,386
Net income before minority interest	3,675	2,633	9,229	6,338
Minority interest in earnings of subsidiaries	1,554	732	3,628	1,699
Net income	<u>\$2,121</u>	<u>\$1,901</u>	<u>\$ 5,601</u>	<u>\$ 4,639</u>
Per share: Net income	26c	23c	69c	57c
Dividends	8c	8c	16c	16c